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April 11, 2000

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

RE: CC Docket No. 99-333 In re Applications of Sprint Corporation, Transferor and MCI WorldCom, Inc., Transferee for Consent to Transfer Control of Corporations Holding Commission Licenses and Authorizations Pursuant to Sections 214 and 310(d) of the Communications Act and Part 1, 21, 24, 25, 63, 73, 78, 90, and 101

Dear Ms. Salas:

Today Debbie Goldman, CWA Research Economist, and Dr. Stephen B. Pociask, Executive Vice President and Chief Economist at Joel Popkin and Co., met with the staff listed below from the Common Carrier Bureau, International Bureau, Office of General Counsel, and Office of Plans and Policy to discuss anti-competitive harm in long distance and Internet markets that would result from the proposed MCI WorldCom/Sprint merger.

Dr. Pociask presented data from a forthcoming independent study that he is completing on the MCI WorldCom/Sprint merger. The data includes the following: HHI indicators measuring the impact of the proposed merger on concentration in long distance, data, and Internet markets; barriers to entry in the long distance and Internet markets; evidence of market power in the long distance market today as measured by cost/price differentials and supra-normal long distance profit ratios; and evidence of network effects and market power in the Internet market as measured by T-1 prices and pricing/service degradation by interconnecting ISPs.

Ms. Goldman discussed the impact of the proposed merger on the Internet backbone market. The discussion centered on these points: EC/DOJ/Commission precedents from the 1998 MCI WorldCom merger review regarding Internet market structure, the need to maintain balanced competition to ensure efficient interconnection, and peering as a barrier to entry; the similarities in market conditions in this instant proceeding to those posed by the 1998 MCI WorldCom merger; structural weaknesses and lessons to be learned from the iMCI divestiture to Cable & Wireless; and effective remedies to resolve merger-related anti-competitive problems.

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The attached hand-outs were used in the discussion. In accordance with the Commission's rules, I submit two copies of this notice and the hand-outs.

Sincerely,

Debbie Goldman

Debbie Goldman, Research Economist
Development and Research Department

cc: Claudia Fox
Christopher Libertelli
Daniel Shiman
Pamela Mezna
Henry L. Thaggert
Tracy Waldon
Jim Bird
Lisa Choi
Helen Domenici
Eric Einhorn

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Preserve Competition Today or Regulate Internet Tomorrow

EC/DOJ/Commission Precedents from MCI WorldCom Merger Review:

- Internet requires balanced competition to ensure efficient interconnection
- Balanced competition requires roughly equal sized backbones, with incentive to cooperate in interconnection
- Merger that creates one dominant network (> 50% market share) changes incentive to cooperate
- Dominant network can tip Internet market to monopoly by raising price or degrading quality of interconnection
- Peering = barrier to entry

MCI WorldCom/Sprint Merger: Similar Market Conditions

- Merged MCI WorldCom/Sprint = > 50% - 70% market share
- Multi-homing, cacheing, mirroring don't change that

Weaknesses of C&W Divestiture: Difficulty in Divestiture of Integrated Internet/Telecom Operations and Assets

- C&W Market share dropped since divestiture (from 40% to less than 10%) in market that doubles every six months
- Failure to transfer personnel, contracts, systems such as billing services, conduct business in ordinary course prior to closing (including retention of customers), abide by non-compete provisions
- Federal Trade Commission study of 35 divestitures

  "Divestiture of an entire business is more likely to be successful than divestiture of part of a business."

  "[T]he difficulty in transferring knowledge is one reason why divestitures of on-going businesses succeeded more than divestitures of selected assets. When an entire business is divested with the personnel who operate it, the knowledge will pass as part of the transaction."

- Sprint's creation of separate Internet business unit is not a separate business

  "[Sprint] employs...sales people and...sales support personnel who devote part of their time [to] selling and supporting Internet customers. Sprint has hundreds of shared customer service personnel who support ordering, provisioning, implementation, billing and trouble management. Additionally, its core Internet backbone is supported by hundreds of shared personnel who work on underlying infrastructure, ranging from the fiber optic network facilities, entrance facilities connecting its Points of Presence to its backbone nodes, and SONET and Wave Division Multiplexing facilities. Sprint also employs hundreds of shared personnel who develop and support the underlying systems associated with the Internet services." (Sprint Comments, MCI WorldCom merger review, CC Docket No. 97-211, filed June 11, 1998)

Internet Remedy

- Requires divestiture of stand-alone UUNET or Sprint's integrated Internet/telecom business

April 10, 2000

MCI WorldCom - Sprint Merger*

Stephen B. Pociask
Exec. VP and Chief Economist
Joel Popkin and Co.
1155 15th Street, NW, Suite 614
Washington, DC, 20005

* - Dr. Jack Rutner is the co-author of the study underlying this document

JPC

Does the Merger Harm the Public Interest?

Need to address the following:

- Structure: Post Merger Concentration
  - » HHIs
  - » Entry Barriers
- Conduct: Evidence of Anti-competitive Behavior
  - » Price
  - » Supply
  - » Technical Change
- Performance: Profits

Long-distance Market Concentration: The Impact of MCI WorldCom-Sprint Merger

TYPE OF SERVICE	Pre-Merger HHI	Post-Merger HHI	Increase in HHI	Post-Merger share
Total Operating Revenues of Service Providers[1]				
Long-distance Companies	2640	3177	537	36.1
Long-distance Service Providers	2132	2565	433	32.4
International Billed Revenues [1]	3760	4381	621	40.9
Telephone International Service	3846	4434	588	39.7
Private Line International Service	3220	4406	1185	59.3
Private Line Long-distance Revenue [2]	2926	3368	442	34.7
Outbound Long-distance Revenue[2]	2675	3049	375	30.9
800 Service Revenue [2]	3282	3846	564	37.5
Wholesale Long-distance Revenue[2]	2023	3028	1005	50.8
Business Line Long-distance Revenue[2]	2464	3080	616	38.7
Residential Long-distance Revenue [2]	3945	4164	219	23.4

Notes: Calculated by Joel Popkin & Co from the following sources:
1: FCC *Trends in Telephone Service* report data (March 2000), Tables 11.2 and 7.4, respectively.
2: Dataquest: U.S. revenues, 1998, Public Telecommunications Services North America Market Share and Forecast, 1999.

Internet and Data Market Concentration: The Impact of MCI WorldCom/Sprint Merger

TYPE OF SERVICE	MEASURES OF MARKET CONCENTRATION			
	Pre-Merger HHI	Post-Merger HHI	Increase in HHI	Firm's Post-Merger Share
Frame Relay Revenue [1]	3292	4352	1060	46.5
ATM Revenue [2]	3269	5184	1915	62.0
Backbone Connections [3]	1445	2145	700	43.4
Backbone Connections [4]	838	1395	556	34.3
Backbone Connections [5]	1809	2764	955	43.7
Backbone Revenues [6]	1927	2616	688	47.2

Notes: HHIs calculated by Joel Popkin & Co. from the following sources:

1. Network World data for National/International Frame Relay Services Revenue
2. Network World data for National/International ATM Services Revenue
3. *Boardwatch* Magazine, *Directory of Internet Service Providers*, 11th Edition, 1999
4. Inter@ctive Week, December 1999
5. TeleGeography 1999
6. Hearing on MCIWorldCom-Sprint Merger Before the Senate Committee on the Judiciary, Exhibit 3 (November 4, 1999), Testimony of Todd A. Jacobs, Senior Telecom. Analyst, S. C. Bernstein & Co., Inc.

Internet and LD Backbone are Dominated by the Same Firms

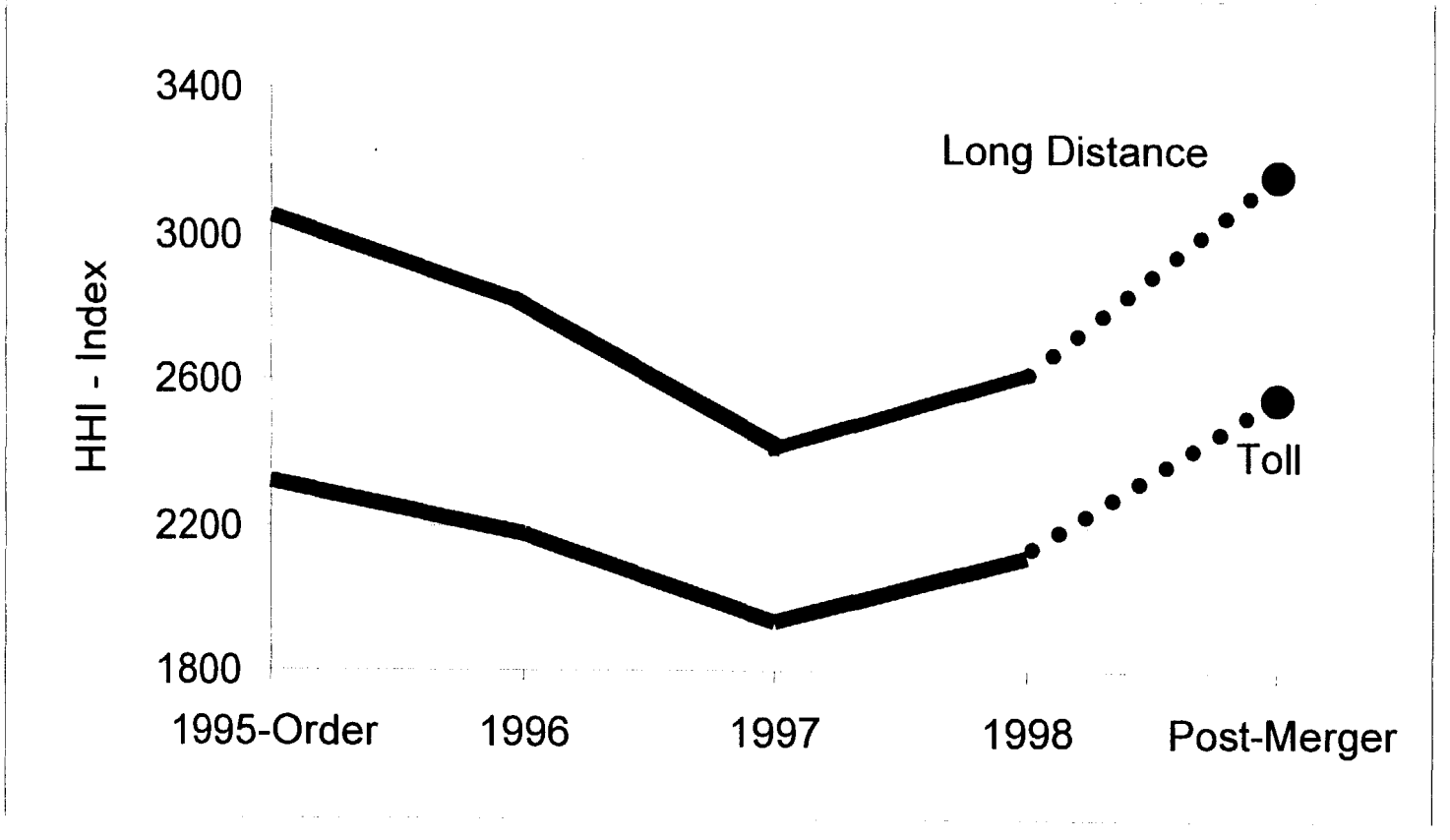
Concentration in Combined Long-distance/Internet Market

	Pre-Merger	Post-Merger	Difference
Revenues[1]	2213	2775	562
Fiber Route Miles[2]	1879	2756	878

Note: 1. Long-distance shares are from FCC *Trends* in Table 2, Internet shares from *Boardwatch*, and wholesale voice/data weights from "Wholesale Carrier Services: U.S. Market Supply and Demand," The Yankee Group, *Data Communications* report vol. 14, No. 14, September 1999, pp. 15-16.
2. FCC *Trends*, see Table 2; includes fiber utilized to transport circuit switched and packet switched traffic.

Thus, migration from LD to VOIP is in the hands of a few.

Concentration Will Be Higher Than It Was When the Non-Dominance Order Was Issued

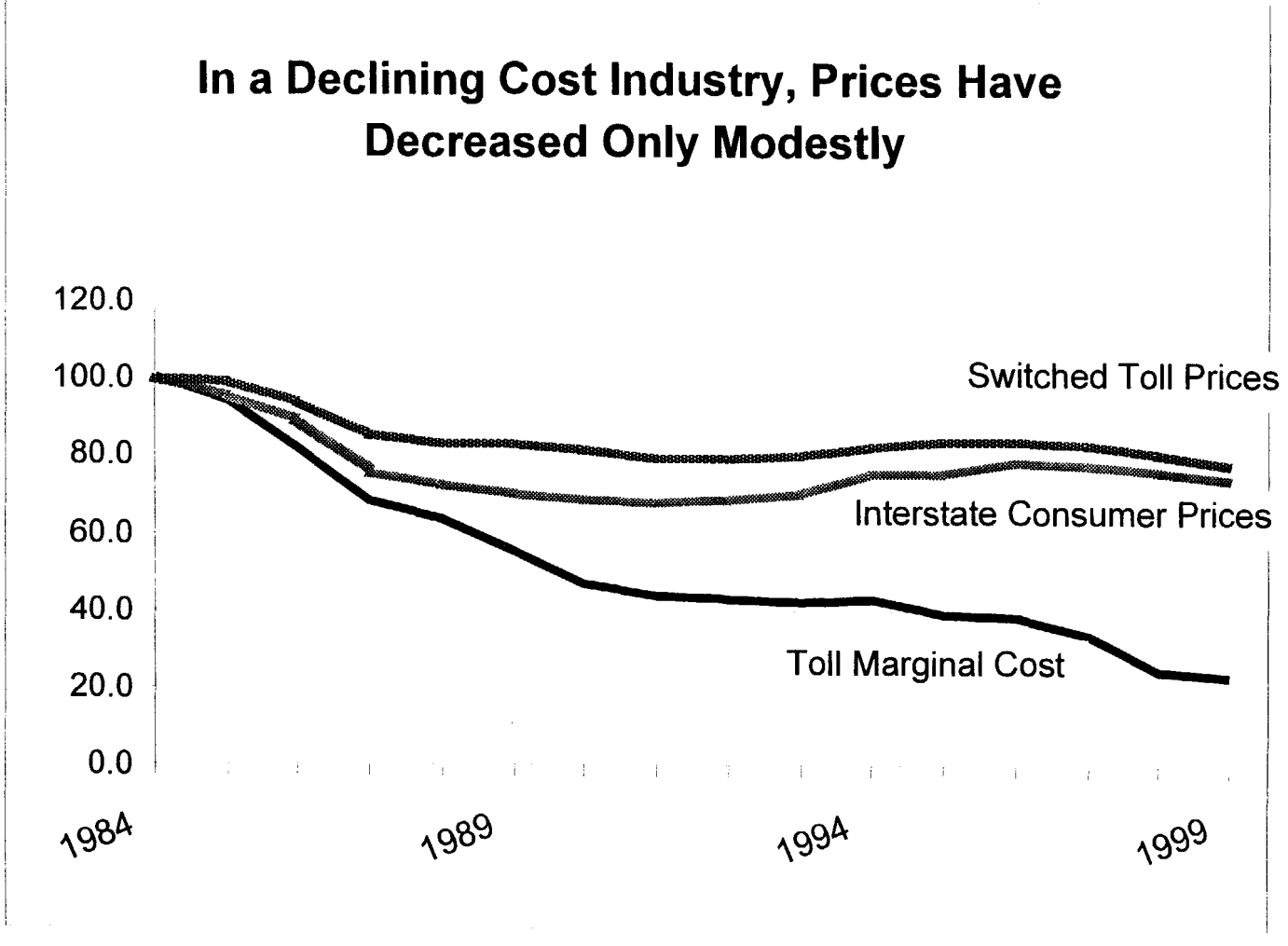


Thus, Mergers Are Reversing the Deconcentration Trend.

Barriers to Entry Maintain Concentration

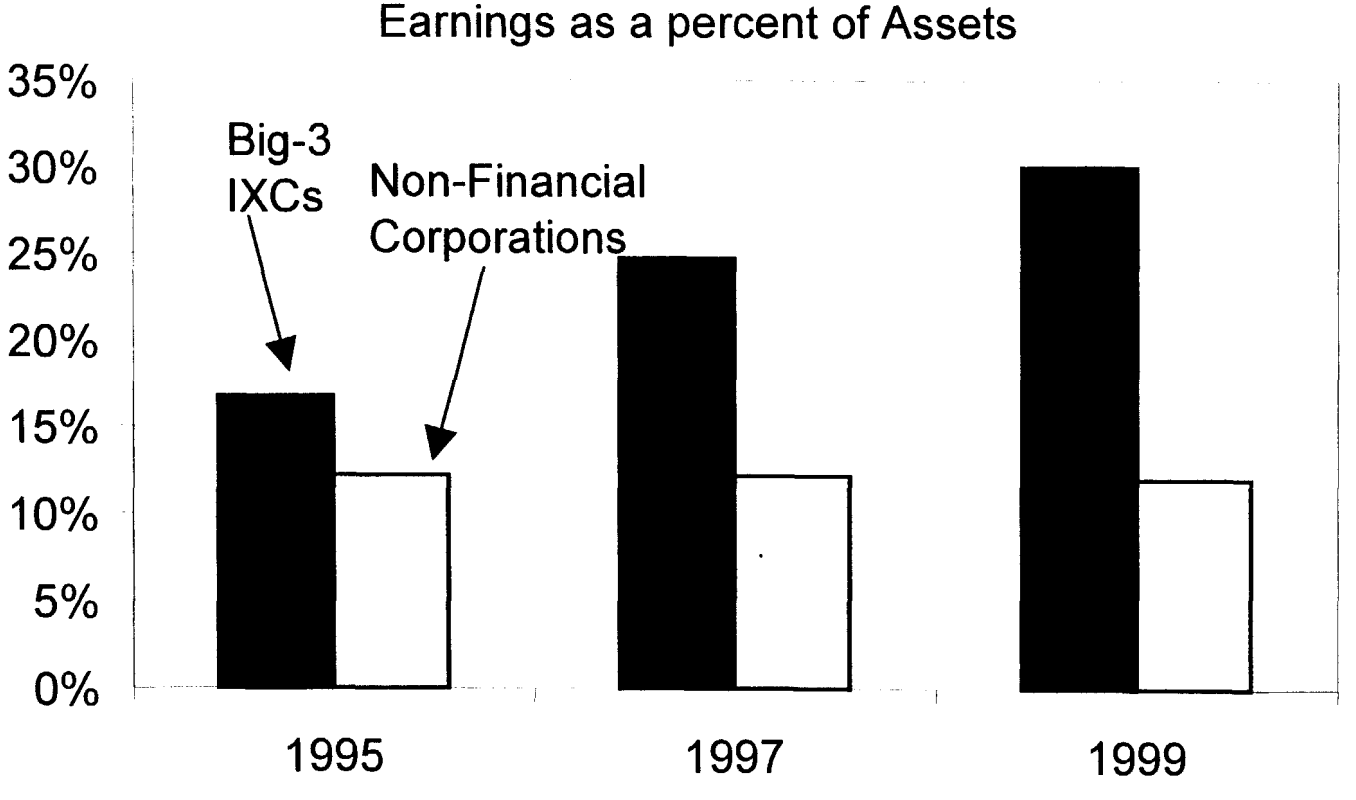
- Brand Recognition
- Regulatory Barriers
- Capital at Risk
- Network Effects and Cooperative Interconnection

Divergence Between Price and Costs Continues

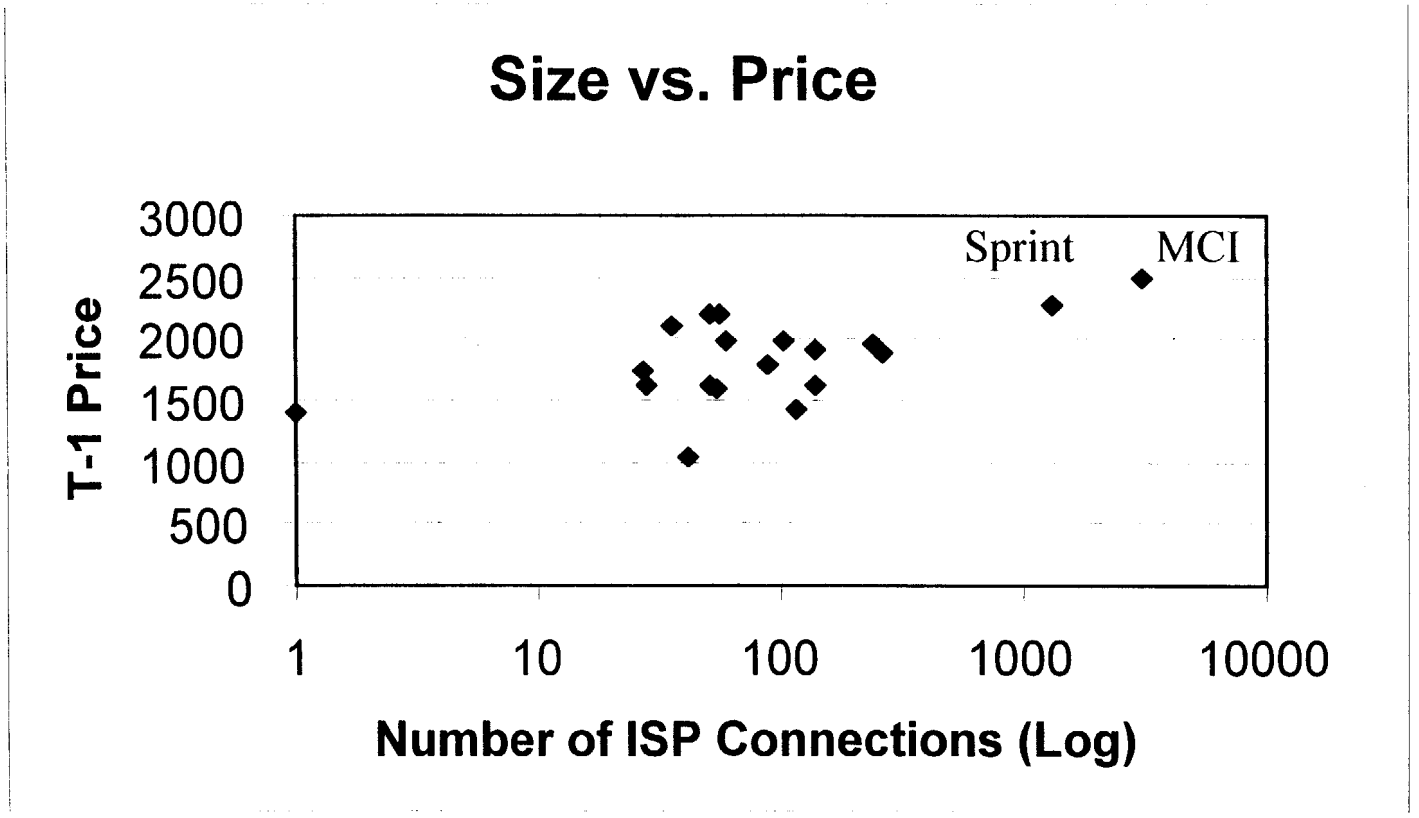


Increases in Profits Coincide with Increases in Concentration

Big-3 IXCs Have Experienced Increased ROAs Relative To Other Non-Financial Corporations



Network Effects Are a Significant Barrier to Entry



In the Internet Backbone, Conduct Reinforces Concentration

"The Upshot is that the players with the biggest networks get to call the shots. The largest and oldest ISPs set up direct peering links with one another and share the cost. But smaller ISPs either have to buy their way in to this old boys' club, at an exorbitant price, or send their traffic through congested public peering points."

- "The Old Boys' Network -- Better 'Net Performance Requires Better Peering," Robin Gareiss, Data Communications, CMP Publications Inc., Oct. 7, 1999, p. 36.

According to the Yankee Group, ISPs Have Claimed A Number of Problems With MCI WorldCom, Including ...

"...lengthy service intervals, lack of high-speed circuits, and pricing. One company cited a delay of more than 90 days on a POP-to-POP OC3. In particular, Tier 2 ISPs noted capacity constraints at or above DS3 capacity. One interviewee said it was rejected on orders for DS3 circuits approximately 50% of the time. While the majority of Tier 1 ISPs say they have been able to negotiate competitive prices from MCI WorldCom in the range of $0.025 per VGE [voice grade equivalent] mile tier 2 ISPs do not appear to be privy to similar discounts. A few Tier 2 ISPs felt they were subject to discriminatory rates based on their lower order volumes."

- From a discussion on MCI WorldCom in "Wholesale Carrier Services: U.S. Market Supply and Demand, The Yankee Group, vol.14, No. 14, September 1999, p. 5.